

June 27, 2002

Want to Lower Rx Drug Prices for Seniors?

How about Unleashing Market Competition and Passing Along the \$18 billion of Savings from Pharmaceutical Manufacturers?

Dear Colleague:

The Congressional Budget Office (CBO) has just verified that one provision in H.R. 4954, the “Medicare Modernization and Prescription Drug Act of 2002,” which is expected to be voted on prior to the July 4th District Work Period, saves seniors and taxpayers \$18 billion on their prescription drugs over 10 years. This savings comes out of the pockets of the pharmaceutical industry, not small pharmacists or others in the distribution chain.

How does it do this? Price controls? Reimportation?

None of the above. The answer is unleashing the free market.

The provision that CBO references in a June 26, 2002 letter concerns the exemption of prices negotiated on behalf of Medicare beneficiaries from the so-called Medicaid “best price” policy. Under the current Medicaid best price policy, the largest discount a pharmaceutical manufacturer negotiates in the private market must be passed along to the Medicaid program as well. Since manufacturers can only influence market share and volume in the private sector, not Medicaid, the “best price” policy has led to less discounting by manufacturers. As a result, arbitrary price floors are created and consumers pay the price as competing manufacturers have had less incentive to steeply discount their prices.

CBO comments in its June 26, 2002 letter that “Exempting Medicare prescription drug plans from Medicaid’s best requirement would allow such plans to negotiate lower discounts.” CBO estimates that amending H.R. 4954 to remove that exemption and make Medicare prescription drug plans subject to Medicaid “best price” requirements would increase costs in the bill by \$18 billion between 2003 and 2012.

Free market competition works if we can eliminate arbitrary government fiats that impede competition. If you want to lower prescription drugs costs for seniors and taxpayers, vote for the bill that does most to control costs through true market competition.

Best regards,

S/

Bill Thomas
Chairman